

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF EAST PENDLETON )  
WATER DISTRICT FOR AN ADJUSTMENT )  
OF RATES PURSUANT TO THE ) CASE NO. 97-243  
ALTERNATIVE RATE FILING )  
PROCEDURE FOR SMALL UTILITIES )

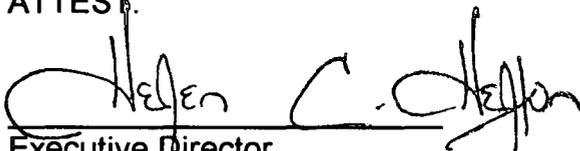
O R D E R

On May 7, 1997, East Pendleton Water District ("East Pendleton") on behalf of its Sewer Division filed its application for Commission approval of proposed sewer rates. Commission Staff, having performed a limited financial review of North Logan's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 10 days from the date of this Order, or 90 days after the date the application was filed, whichever is later, to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 5th day of December, 1997.

ATTEST:

  
Executive Director

PUBLIC SERVICE COMMISSION

  
For the Commission

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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OF RATES PURSUANT TO THE ) CASE NO. 97-243  
ALTERNATIVE RATE FILING PROCEDURE )  
FOR SMALL UTILITIES )

STAFF REPORT

Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

Prepared By: Brent Kirtley  
Public Utility Rate  
Analyst, Senior  
Communications, Water  
and Sewer Rate Design Branch  
Financial Analysis Division

STAFF REPORT

ON

EAST PENDLETON WATER DISTRICT

CASE NO. 97-243

On May 7, 1997, the East Pendleton Water District ("East Pendleton") submitted an application on behalf of its Sewer Division seeking to increase its rates pursuant to 807 KAR 5:076, the Alternative Rate Adjustment Procedure for Small Utilities. In Order to evaluate the requested increase, the Commission Staff ("Staff") performed a limited financial review of East Pendleton's test-period operations for the 1996 calendar year.

Mark Frost of the Commission's Division of Financial Analysis performed the limited review on June 9, 1997 and October 14, 1997. The scope of the review was limited to obtaining information as to whether Sewer Division's test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Mr. Frost is responsible for the preparation of this Staff Report except for Attachment A, Adjustment A, Revenue from Sewer Rates; Attachment D, Staff's Cost of Service Study, Staff's Recommended Rates, and the Sewer Rates East Pendleton Could Justify, which were prepared by Brent Kirtley of the Commission's Division of Financial Analysis.

A comparison of East Pendleton's actual and pro forma operations is shown as Attachment A. Based upon Staff's recommendations, East Pendleton's operating statement would appear as set forth in Attachment B.

East Pendleton requested additional revenues of \$5,579. Since East Pendleton's proposed sewer rates will produce a negative cash flow of \$7,223, as computed in

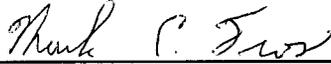
Attachment C, the proposed sewer rates should be denied. To eliminate the Sewer Division's negative cash flow, Staff recommends that East Pendleton be allowed to increase its revenues from sewer rates by \$12,802, as determined in Attachment C.

As shown in that same attachment, based on its recommended pro forma operations and the 88 percent operating ratio normally allowed by this Commission, Staff believes East Pendleton could justify additional revenues from sewer rates of \$16,536. East Pendleton may wish to amend its application to reflect the additional revenues that could be justified. Such an amendment should be filed with any comments on the Staff Report.

Because the sewer rates recommended by Staff differ from those rates previously noticed to customers, East Pendleton should re-notice its customers of Staff's recommended rates. Should East Pendleton choose to amend its application to reflect the sewer rates it could justify, Staff recommends that East Pendleton be required to notify its customers of the amended rate proposal.

The sewer rates contained in Attachment D will produce Staff's recommended revenue increase of \$12,802. Attachment D also contains the rates that will produce the revenue increase East Pendleton could justify of \$16,536.

Signatures

  
Prepared By: Mark C. Frost  
Public Utility Financial  
Analyst, Chief  
Water and Sewer Revenue  
Requirements Branch  
Financial Analysis Division

Staff Report  
PSC Case No. 97-243  
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A handwritten signature in cursive script, reading "Brent Kirtley", positioned above a horizontal line.

Prepared By: Brent Kirtley  
Public Utility Rate  
Analyst, Senior  
Communications, Water and  
Sewer Rate Design Branch  
Financial Analysis Division

EAST PENDLETON  
COUNTY WATER  
DISTRICT

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A

EAST PENDLETON'S  
PRO FORMA  
OPERATIONS

	Actual Operations	Pro Forma Adjustments	Pro Forma Operations
Operating Revenue:			
Flat Rate - Residential	\$2,101	\$0	\$2,101
Operating Expenses:			
Operation & Maintenance Exp:			
Collection System - Labor & Materials	\$714	\$0	\$714
Purchased Power	1,042	0	1,042
Chemicals	800	0	800
Office Supplies	51	0	51
Outside Services	2,005	0	2,005
Insurance - Workers Compensation	0	0	0
Miscellaneous General	1,009	0	1,009
Total Operation & Maintenance Exp	\$5,621	\$0	\$5,621
Depreciation	821	0	821
Amortization	0	0	0
Interest Long-Term Debt	3,925	(2,925)	1,000
Taxes Other Than Income Taxes	0	0	0
Total Operating Expenses	\$10,367	(\$2,925)	\$7,442
Net Operating Income	(\$8,266)	\$2,925	(\$5,341)

EAST PENDLETON  
COUNTY WATER  
DISTRICT

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B

STAFF'S  
PRO FORMA  
OPERATIONS

	Actual Operations	Pro Forma Adjustments	Foot- note Ref.	Pro Forma Operations
Operating Revenue:				
Flat Rate - Residential	\$2,101	\$77	A	\$2,178
Operating Expenses:				
Operation & Maintenance Exp:				
Salaries & Wages - Employees	\$0	\$7,500	B	\$7,500
Employee Pension & Benefits	0	2,014	C	2,014
Collection System - Labor & Materials	714	0		714
Purchased Power	1,042	0		1,042
Chemicals	800	(97)	D	703
Office Supplies	51	0		51
Outside Services	2,005	0		2,005
Insurance - Workers Compensation	0	688	E	688
Miscellaneous General	1,009	(1,009)	F	0
Total Operation & Maintenance Exp	\$5,621	\$9,096		\$14,717
Depreciation	821	0		821
Amortization	0	630	G	630
Taxes Other Than Income Taxes	0	574	H	574
Total Operating Expenses	\$6,442	\$10,300		\$16,742
Net Operating Income	(\$4,341)	(\$10,223)		(\$14,564)
Other Income:				
Income Non-Utility Operations	7,303	(7,303)	I	0
Interest Income	121	0		121
Miscellaneous Nonoperating	190	0		190
Income Available for Operations	\$3,273	(\$17,526)		(\$14,253)

**A. Revenue from Sewer Rates:**

Staff's adjustment reflects the sewer division's end-of-period customer level and the current tariffed rate on file with the Commission.

33 (End-of-Period Customer Level) x	\$5.50 (Tariffed Monthly Rate) =	
Multiplied by: 12-Months		\$181.50
Normalized Revenue from Sewer Rates		12
Less: Reported Revenue from Sewer Rates		\$2,178
Staff's Pro Forma Adjustment		2,101
		<u>\$77</u>

**B. Salaries & Wages - Employees:**

In 1996, East Pendleton did not allocate any of its payroll cost to its Sewer Division. The maintenance employee spends approximately 1.5 hours per day at the sewage treatment plant, which is the basis Staff used to allocate the maintenance labor. The Commission currently allows small utilities to pay their owner/manager an annual fee of \$3,600. Based on this past Commission practice, Staff has allocated \$3,600 of the manager's salary to the Sewer Division.

Plant Operator	\$10 (Hourly Rate) x	390 (1.5 Daily Hours x 260 Annual Workdays) =	3,900
Admin. (Owner/Manager Fee)			3,600
Staff's Pro Forma Adjustment			<u>\$7,500</u>

**C. Employee Benefits:**

East Pendleton provides health insurance to each employee and contributes 8.65 percent of each employee's salary into an employee retirement system. Staff's adjustment allocates these costs to the Sewer Division based on the payroll allocation.

Total Pro Forma Health Insurance			\$18,504
Multiplied by: Sewer Allocation Factor	\$7,500 (Sewer Salaries) \	\$101,688 (Total Payroll) =	7.376%
Net Pro Forma Health Insurance			\$1,365
Add: Retirement Contribution	\$7,500 (Sewer Salaries) x	8.65% (Contribution Rate) =	649
Staff's Pro Forma Adjustment			<u>\$2,014</u>

**D. KPDES Testing:**

Staff's adjustment reflects the annual cost of the Sewer Division's KPDES testing expense.

Less: Reported KPDES Testing Expense	\$51.45 (Monthly KPDES Testing Fee) x	12 (Months) =	\$617
			714
			<u>(\$97)</u>

E. Insurance - Workers' Compensation:  
 This proposed adjustment reflects the 1996 workers' compensation premium and the labor cost allocated to the Sewer Division.

Waterworks	Pro Forma Payroll	Rate per \$100	Pro Forma Premium
Less: All Discounts	\$7,500	\$0.92109	\$691
Subtotal	8.69% (Discount Rate) =		60
Less: Ky Premium Tax	\$631 (Subtotal) x		\$631
Pro Forma Workers' Compensation Premium	9.00% (St Tax Rate) =		57
			<u>\$688</u>

F. Miscellaneous General:  
 Because East Pendleton could not provide documentation to support this expense, Staff has removed this cost from operating expenses.

Unsupported Cost (\$1,009)

G. Amortization:  
 This adjustment reflects amortizing East Pendleton's rate case cost over 3-years.

	Amount	Lives	Amortization Expense
\$6,300 (Eng. Fee Both Applications) x	\$1,890	3	\$630
<u>Taxes Other Than Income Tax:</u>			

H. Staff's adjustment includes the change in FICA expense resulting from the pro forma payroll adjustment.

\$7,500 (Sewer Salaries) x 7.65% (FICA Rate) = \$574

I. Income Non-Utility Operations:  
 Revenues from the water customers were included in the sewer division's income from non-utility operations. Staff's adjustment removes the mis-classified water revenues from the sewer division's test-period other income.

Revenue from Water Rates (\$7,303)

EAST PENDLETON  
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STAFF'S  
REVENUE REQUIREMENT  
DETERMINATION

**REVENUE INCREASE EAST PENDLETON COULD JUSTIFY**

Pro Forma Operating Expenses	\$16,742
Add: Debt Service Coverage	88%
Total Revenue Requirement	<u>\$19,025</u>
Less: Other Income	311
Revenue Requirement from Sewer Rates - East Pendleton Could Justify	<u>\$18,714</u>
Less: Normalized Revenue from Sewer Rates	2,178
Increase East Pendleton Could Justify	<u><u>\$16,536</u></u>

**NET CASH FLOW**

Normalized Revenue from Sewer Rates	\$2,178
Add: Requested Increase	5,579
Revenue from Sewer Rates & Requested Increase	<u>\$7,757</u>
Less: Staff's Pro Forma Operating Expenses	16,742
Subtotal	<u>(\$8,985)</u>
Add: Depreciation	821
Amortization	630
Other Income	311
Net Cash Flow	<u><u>(\$7,223)</u></u>

**BREAK-EVEN INCREASE IN REVENUES**

Revenue from Sewer Rates & Requested Increase	\$7,757
Add: Revenue Deficiency	7,223
Break-Even Revenue Requirement from Sewer Rates	<u>\$14,980</u>
Less: Normalized Revenue from Sewer Rates	2,178
Required Break-Even Increase	<u><u>\$12,802</u></u>

EAST PENDLETON  
COUNTY WATER  
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STAFF'S COST  
OF SERVICE STUDY,  
THE RECOMMENDED RATES,  
& THE RATES EAST  
PENDLETON COULD JUSTIFY

	<u>total</u>	<u>commodity</u>	<u>demand</u>	<u>customer</u>
SALARIES & WAGES	7,500		3,750	3,750
ALLOCATION %	100.00%		50.00%	50.00%
PENSIONS & BENEFITS	2,014		1,007	1,007
OFFICE SUPPLIES	51		26	26
INSURANCE	688		344	344
MISCELLANEOUS	0		0	0
SUB-TOTAL	2,753		1,377	1,377
COLLECTION SYSTEM	714		714	
PURCHASED POWER	1,042	1,042		
CHEMICALS	703	703		
OUTSIDE SERVICES	2,005		2,005	
SUB-TOTAL	4,464	1,745	2,719	
TOTAL OPERATION & MAINTENANCE	14,717	1,745	7,846	5,127
ALLOCATION %	100.00%		95.00%	5.00%
DEPRECIATION EXPENSE	821		780	41
AMORTIZATION	630		599	32
DEBT SERVICE	2,283		2,169	114
SUB-TOTAL	3,734		3,547	187
ALLOCATION %	100.00%		50.00%	50.00%
TAXES OTHER THAN INCOME	574		287	287
LESS INTEREST INCOME	(121)			(121)
LESS MISC NONOPERATING	(190)			(190)
SUB-TOTAL	263		287	(24)
JUSTIFIABLE REVENUE FROM RATES	18,714	1,745	11,680	5,289

	<u>total gallons</u>	<u>first 1000</u>	<u>over 1000</u>
USAGE	1,878,000	378,000	1,500,000
	100.00%	20.13%	79.87%

		<u>20.13%</u>	<u>79.87%</u>
COMMODITY	1,745	351	1,394
DEMAND	11,680	<u>2,351</u>	<u>9,329</u>

		2,702	10,723
CUSTOMER		<u>5,289</u>	
CUSTOMER ALLOCATION		7,991	
NUMBER OF BILLS		396	

	<u>first 1000</u>	<u>over 1000</u>
JUSTIFIABLE RATE SCHEDULE	<b>20.18</b>	<b>7.15</b>
	minimum	per 1000
	bill	gallons

\$7,991.32	\$10,722.68	\$18,714.00
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	<u>first 1000</u>	<u>over 1000</u>
BREAK-EVEN RATE SCHEDULE	<b>16.15</b>	<b>5.73</b>
	minimum	per 1000
	bill	gallons

\$6,395.40	\$8,595.00	\$14,990.40
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